The development of a mortgage market in Turkey – lessons from the British experience

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Introduction

Britain has a well established mortgage market that has evolved in response to changing circumstances over a period of around 150 years. The system does not result from specific actions of government and there has been no general government policy towards the development of the market.

For these reasons, the British experience may not be thought relevant to countries developing mortgage system. In practice, however, the British experience is valuable for other countries and perhaps is sometimes overlooked precisely because there is no documented "system" with specialist institutions and a specialist regulator. Above all, the lessons of the British experience are that mortgage lending will thrive provided there are the right macroeconomic, legislative and regulatory conditions and if mortgage lending is regarded as a normal banking function.

This paper sets out some general principles for the development of a mortgage market based on experience around the world with specific references to the British experience.

What is an efficient mortgage market?

An efficient mortgage market is one in which people with average earnings can borrow around three times their income to enable them to purchase a house with a 25 loan of up to 80% of the value of the house at an interest rate no more than 150 basis points over the cost of funds. This is the position in Britain and in most other industrialised counties. Indeed, so competitive is the mortgage market in Britain that new borrowers can often obtain a loan for under 100 basis points over the cost of funds. The margin has to be sufficient to cover the costs of raising the funds, administration of the mortgage loans, the profit for the lender, the capital required to back the business and bad debts.

Typically, in a less developed market people may not be able to borrow at all. Where they can borrow, the interest rate can be between 8 and 15 percentage points over the cost of funds for a loan that will be for much less than 80% of the value of the property repayable in 5 -10 years. Often house purchase is funded by developer finance, which can be expensive and risky for the borrower, or by a combination of informal finance (loans from relatives etc) and a limited amount of short term bank finance. It is unrealistic to expect in any such economy for that margin to be bought down to150 basis points in a short time period. A reasonable target is between 200 and 400 basis points with this margin subsequently coming down further as the volume of business increases and therefore unit administrative costs reduce and also as lenders obtain sufficient experience in lending and managing their loan portfolio so as to minimise bad debts.

Why is an efficient mortgage market important?
Mortgage finance can play a vital role in the development of an economy. On the housing side, the lower the rate of interest at which people can borrow to buy a house, the more they will be inclined to buy or build a house, or to improve their home. This will improve living conditions. Also, the building industry should be stimulated with the resulting beneficial effect on the quality and cost of construction and employment.

On the financial side, there is strong evidence from many emerging markets that even very poor people are prepared to save money if this will help them obtain mortgage finance in the future. Mortgage finance should be a significant part of the retail banking system. The development of mortgage finance can therefore lead to a widening and deepening of financial markets and also the transformation of markets from informal to formal with all the benefits that that brings.

There is therefore a huge gain both to the people who benefit directly from mortgage loans and to the economy as a whole from the development of a mortgage market. Moreover, this is a gain that can be achieved at virtually no cost.

The macroeconomic conditions
A mortgage market cannot be developed in isolation of the general economic environment. It is difficult to have an efficient mortgage market in an economy where inflation and interest rates are high and unstable.

In most advanced industrialised countries inflation is now under 3% a year, which is the ideal rate for an efficient mortgage market. In Britain, in the past, inflation has been as high as 20% for a short time and mortgage rates have been as high as 15%. The stability of the mortgage market was threatened with these macroeconomic conditions. However, because in Britain the market was well established it was able to survive a relatively short period of extremely high interest rates. Given that high interest rates are generally accompanied by high inflation, which rapidly reduces the real value of debts, there are in fact some advantages to both mortgage lenders and mortgage borrowers from a high rate of inflation. However, a mortgage market cannot be developed in these conditions.

It is understood that interest in mortgage lending has increased significantly in Turkey as the rate of inflation has fallen. In fact, provided the other conditions are in place, as described subsequently, a mortgage market will develop of its own accord in Turkey regardless of the actions of the authorities. If, as there should be, there is a will to develop mortgage lending then the task of the authorities is to make sure that the other conditions are in place and that the development of mortgage finance is encouraged rather than hindered.

The legal framework
There are two essential requirements for an efficient mortgage market in respect of the legal framework, neither of which is concerned with the financing of loans.

The reason why the rate of interest on mortgage loans in advanced countries is a tiny margin over the cost of funds is because the lending is the safest form of lending that it is possible for a bank to undertake. The bank has the security of the borrower's income and of the property if the borrower should be unable to repay the loan. In practice, there will also be insurance of the borrower, the property and sometimes also the loan.

An efficient mortgage market therefore requires a land registration system, which means that title to land is unambiguous and absolute. The second basic requirement is that if a mortgage borrower defaults on his loan, then the mortgage lender must be able to take possession of the property and sell it on the open market within a short time, ideally no more than about six months. The legal system has to provide for such arrangements and they must work in practice.

The biggest mistake that is made in many countries in respect of mortgage lending is to seek to protect borrowers by making it difficult for lenders to obtain possession or, if they can obtain possession, to sell on the open market. If the lender does not have the security of property then the rate of interest charged will not be a mortgage rate of 100 or 200 basis points over the cost of funds but rather an unsecured loan with an interest rate with a margin that is perhaps ten times as high.

A simple, efficient mechanism for the transfer of ownership of property will facilitate the development of a mortgage market. Sadly, lawyers need to be involved in the process, but the more that it can be standardised and mechanised, the lower the costs will be.

There also needs to be a generally accepted framework for valuing properties and a network of professionals able to undertake this task competently. This will give confidence to homebuyers that they are paying the right price for their properties and also give the necessary reassurance to lenders about the security for their loans.

Britain has a well established land registration system dating back over many years. Scotland has its own special arrangements but in England and Wales there is a central Land Registry recording the ownership of all land, and the records can be accessed electronically. Lenders can take possession if the borrower defaults but, as a protection for borrowers, lenders require a court order. This will normally be given without difficulty if the lender is able to demonstrate that the borrower has failed to keep up the mortgage repayments and that there is little prospect of the borrower making the repayments in the foreseeable future. From the time that the lender seeks to take possession to gaining possession is seldom more than six months and the lender then has vacant possession and can sell the property on the market. Should the property sell for more than the value of the outstanding mortgage together with the lender's costs, then any surplus belongs to the borrower. In practice, in such circumstances the borrower would probably choose to sell the property himself.

Alternative mortgage systems

There are just two broad methods of funding mortgage loans – through retail deposits and wholesale instruments. There are often attempts to complicate the process and to introduce what are claimed to be alternative arrangements, but in practice these are the only two funding mechanisms.

In Britain, the predominant mortgage financing system is the use of retail deposits. Traditionally, the main lenders were the building societies which could be seen as specialist mortgage banks, the functions of which were purely to act as a home for retail deposits and to make mortgage loans to home buyers. Indeed, until the mid-1980s these were the only functions that building societies were allowed to undertake. It is an inherent feature of the deposit taking model that the rate of interest charged on mortgage loans should be variable. Retail deposit taking institutions are not able to raise from their traditional funding source large amounts of money at fixed rates of interest for long time periods. It is vital, as will be described subsequently, that a mortgage lender matches assets and liabilities. Retail banks do this by conducting all of their operations on a variable rate basis or use rates of interest that are fixed for relatively short periods, typically up to two years.

Over the last 20 years, the main commercial banks have also become very active in the mortgage market, and a number of the largest building societies have themselves become banks and widened their activities. There have also been mergers between banks and building societies. In general, however, the principle remains that most mortgage lending is financed by retail deposits through the ordinary banking system.

For this to happen there has to be public confidence in the banks, in particular that they are safe institutions in which to deposit money. This is not the case in many emerging markets and as a result money is either kept in the form of cash, not saved at all, or, in the case of better off people, invested abroad or in foreign currency deposits with international banks in the domestic market. Where there is a lack of confidence in the banking system, a deposit protection scheme can help to build the necessary confidence. However, such a scheme must not be an alternative to sound banking regulation.

There is a variation of the deposit taking system which operates to a limited extent in Germany and a few other countries. This is the bausparkasse or building saving system under which people contractually save for a period of years at a below market rate of interest and then are entitled to a loan also at a below market rate of interest. This system is not to be recommended to any emerging market. It can, at best, provide only a small amount of the funds that home buyers require and is generally dependent on both government subsidies and a high rate of inflation.

The alternative method of raising funds is through the wholesale market, that is raising money, generally at fixed rates, over longer periods of time from 5 to 25 years and then lending the proceeds, also at a fixed rate of interest, over the same time period. Where funds are raised for, say, 5 years through bonds then mortgage loans can be made for 25 years with the rate of interest being reviewed every 5 years to bring it into line with the current bond rate.

Mortgage lending can be financed by bonds raised in the normal course of banking business with no special conditions. In a number of countries there is a particular type of bond used to finance mortgage lending. These are known either as mortgage bonds or covered bonds. Basically, the lending institution raises funds on its own balance sheet backed by a pool of mortgage loans on its books. Because the bonds are well secured compared with unsecured bonds of the banking system, they attract a lower rate of interest. The mortgage bond system is most developed in Germany but it is used in a number of other countries including Denmark and the Netherlands. Other countries, for example Ireland, have recently made legislative changes to facilitate mortgage bonds. Interestingly, in Britain, there has recently been a very large mortgage bond issue by the largest mortgage lender. This has been done without any legislation but rather using the flexibility of the financial markets in Britain.

It is necessary at this stage to say a little about securitisation as there can be a temptation in countries seeking to develop mortgage markets to see this as an easy way to move to a sophisticated mortgage market. The American model, with Fannie Mae and Freddie Mac, is sometimes seen as being one to follow, no doubt aided by the extensive marketing by these two organisations. Countries like Turkey should eliminate securitisation from their thinking for the foreseeable future. Securitisation has been essential in America because the primary market has been so inefficient as a result of government regulation. Securitisation in America has involved the nationalisation of the housing finance system and causes significant problems. It also needs to be understood that securitisation can work only if most of the necessary requirements for an efficient primary market are in place and if there is a large critical mass of business which will provide liquidity to the market. The advice to a country seeking to develop a mortgage market must be to take account of securitisation in the longer term in framing mortgage instruments and regulations but do not see this as being able to make any significant contribution in the next few years.

There has never been any legislation in Britain stipulating how mortgage loans should be funded nor is there such legislation in most countries. This is not necessary. Deposit taking and issuing bonds are normal functions of the banking system and it should be for the banks and the market to decide the balance between the two forms of funding. There is no reason why they cannot co-exist as they do in most countries already. Similarly, making loans to people is a normal banking function.

In some countries that use the mortgage bond system, specialist institutions issue the bonds and make the loans. However, such institutions are unlikely to have the distribution mechanism that mortgage lending requires and for this reason are often, in practice, part of commercial banks or have arrangements with commercial banks. There is no reason to legislate to restrict the issuing of mortgage bonds or covered bonds to specialist institutions but nor should legislation prevent this if an institution feels that this is the best way to operate.

The general point from this brief analysis is that mortgage lending is a mainstream banking activity which is best done by mainstream banks. If institutions choose to specialise in mortgage lending, being funded by either retail deposits or by raising money on the wholesale markets, that should be a commercial matter for them. From the public policy perspective, what is important is that legislative and regulatory requirements are not such as to force business to be done in a particular way.

Prudential regulation of bank mortgage lending

In countries where the mortgage market is developing there is a temptation to set up a specific regulatory regime. This can work, but is unnecessary and generally unwise. Mortgage lending is a banking function and ideally should be regulated by the banking regulator. Where there is a separate regulator there is scope for regulatory arbitrage by the banks and for bureaucratic competition by the regulators.

The purpose of banking regulation is to protect depositors not borrowers. Where a bank undertakes mortgage lending, the banking regulator should develop a framework for assessing the risks of that lending and for the capital backing that will be required. This framework needs to be transparent and publicly available.

In most countries there is now a well established framework for the supervision of mortgage lending by banking institutions based on guidelines produced by the Basle Committee of Banking Supervisors. This assigns risk weights to various categories of assets. Loans generally carry a 100% risk weighting for which an 8% capital requirement is considered the minimum. Government securities carry a much lower risk weighting reflecting the security they offer. Because loans secured on residential property are more secure than bank lending generally, under the current Basle rules loans to house purchasers carry a 50% risk weighting.

This lower risk weighting than for normal loans is justified on both theoretical and empirical grounds. The theoretical grounds are that –

- Unlike most commercial loans the funds needed to meet the loan repayments do not derive from the investment financed by the loan. Loans are repaid out of income earned by borrowers and borrowers prioritise loan repayments because failure to do so might mean them losing their homes.
- If borrowers lose their income then other means may be available to repay the loan, including income from other family members, savings, income from renting out part of the property, social security payments and in some countries the proceeds of insurance policies.
- If borrowers are unable to repay their loans the lender generally still does not lose any money because it can possess the property with vacant possession and sell it. The lender is likely to be able to recover the loan from the proceeds because the security is readily marketable (unlike the security for many commercial loans), the loan will have been for no more than 80% of the value of the property, the chances are that house prices will have risen since the loan was taken out and insurance may cover any loss that the lender may make.

Empirical evidence also shows that residential mortgage lending is safer than other forms of bank lending. This is demonstrated not only by the loss experience but also by the willingness of lenders to make residential mortgage loans at a narrow spread over the cost of funds. It is important to note that the 50% risk weighting follows from the theoretical points in this section, backed up by empirical evidence on the loss ratio. If this supporting evidence is not available in an economy the 50% risk weighting cannot be justified.

Banking regulators also need to consider the quality of a bank's overall portfolio of mortgage loans to assess whether the capital it holds is adequate. If a portfolio is relatively risky then the regulator can legitimately require higher capital backing. The following factors are all relevant to the security offered by individual mortgage loans and to the quality of the mortgage loan portfolio of a bank –

- The loan to value (LTV) ratio. Empirical evidence shows that this is a particularly significant factor in determining the likelihood of mortgage defaults and resultant losses. The rating agency, Fitch ICBA, has established the following relationship between LTV and expected loss from the experience of six countries (Australia, Germany, Holland, Spain, the UK and the US).

LTV range	Expected losses relative to LTV of 75.01%-80%
50.00% and below	0.00
50.01% - 60.00%	0.09
60.01% - 65.00%	0.25
65.01% - 70.00%	0.46
70.01% - 75.00%	0.70
75.01% - 80.00%	1.00
80.01% - 85.00%	1.39
85.01% - 90.00%	1.92
90.01% - 95.00%	2.67
95.01% - 98.00%	3.40
98.01% - 100.00%	4.14

  It will be seen that a loan with an LTV of 75-80% has a four times greater expected loss than one with an LTV of 60-65% and a loan with a LTV of 95-98% has an expected loss 3.4 times higher than a loan with an LTV of 75-80%. Because the LTV ratio is so significant lenders (and regulators) may put a ceiling on the ratio, typically 75 – 80%.
- Loan to income ratio. Other things being equal, the higher the loan to income ratio, the greater the risk of default. A regulator may wish to see a maximum loan to income ratio and may look at the average loan to income ratio for a bank in comparison with other banks. However, this does assume that the income figure is meaningful, which is often not the case in emerging markets.
- The spread of risk, for example large exposures, the geographical spread of lending and the spread of lending between types of home buyer.
- Insider lender, in particular lending to purchasers of properties the construction of which the bank has financed or which the bank itself owns, for example properties taken into possession.
- Appropriate credit checks on the borrower.

- Any guarantors, for example a relative or an employer. In developed systems these are unusual and pose their own problems. In transitional economies they may be necessary to compensate for weaknesses in the security, but there should be a medium term objective to reduce reliance on such guarantees.
- Mortgage insurance. In many countries there are arrangements by which lenders can insure the "top slice" of a loan. Such arrangements might, for example, provide that in exchange for a premium an insurance company will meet a proportion of any shortfall up to, say, 20% of the value of the loan in the event of the borrow defaulting, the lender repossessing the property and selling it but being unable to recover its debt. There are a number of other types of mortgage insurance. The institutions which can provide such insurance include commercial insurance companies and governmental agencies. Mortgage insurance schemes can also be a means by which other lending requirements can be enforced. For example, mortgage insurance might be available only if loans meet certain requirements, such as a maximum LTV ratio, a maximum size and a maximum loan to income ratio.

The prudential supervision and capital requirements for banks also need to recognise any interest rate risk that the lender takes. In theory, a bank can take no interest rate risk either by –

- Making fixed rate loans funded by fixed rate liabilities of the same maturity. For example, 25 year loans would be funded by 25 year bonds, five year loans by five year bonds or deposits, etc.
- Making variable rate loans funded by variable rate deposits, that is the rate of interest on loans can be increased at any time in line with the increase in the cost of deposits. In some systems, the lender has discretion as to when, and by how much, to change interest rates with the market providing the necessary protection to borrowers. In other systems, interest rates must be tied to some cost of funds index.

In practice, however, a lender cannot entirely eliminate interest rate risk whichever system it uses. Fixed rate loans present a risk when interest rates fall. If the borrower has the right to redeem the loan at any time without penalty or with a penalty that does not reflect the loss that the lender could incur then the lender carries a very substantial risk. Even if the borrower cannot redeem there is an increased default risk if interest rates fall as borrowers may refuse to continue paying what they see as an above market interest rate. This particular risk is reduced the more stable the general level of interest rates. The lender can also reduce the risk by limiting the period for which a rate is fixed. For example, a loan can be for a fixed rate for five years, the borrower then having the option of rolling over the loan into another fixed rate loan or a variable rate loan. However, the lender may suffer the same risk as the variable rate lender if interest rates rise rapidly over this five year period.

With variable rate loans the risk of default is increased if interest rates rise rapidly, as borrowers may be unable or unwilling to meet the higher repayments. To a limited extent, lenders can mitigate the effects of higher interest rates by extending the loan term. Again, in a stable economy with relatively stable interest rates this risk is reduced.

Generally, long term lending of any form is risky in an economy where interest rates are unstable. Short of government guarantees (for example compensating lenders when borrowers prepay long term loans in response to an interest rate fall) there is no means of isolating totally lending institutions from interest rate risks in respect of long term residential mortgage lending. Beyond the obvious points (such as not allowing long term loans to be made without long term liabilities to back them) banks and regulators must look to the stability of interest rates generally. In an unstable environment, particularly one characterised by a high rate of inflation and correspondingly high interest rates banks (and their supervisors) may decide that it is imprudent to make any loan with a maturity of more than three or five years. In these circumstances, to the extent that banks finance house purchase at all they do so through a succession of short term loans, although the borrower can never be certain that the next loan will be forthcoming.

Supervision of lending by non-banks

The purpose of the supervisory mechanism outlined in the previous section is to protect bank depositors by ensuring that banks are well capitalised for the nature of their business. The purpose of international harmonisation of the rules is to prevent regulatory arbitrage, that is banks locating their business in territories with a favourable regulatory regime and thereby being able to compete unfairly in markets where the domestically based institutions are subject to more stringent regulation.

Should non-bank mortgage lenders be subject to the same prudential requirements as banks? The answer depends on the nature of the lender.

If the non-bank lender is a private institution in which banks do not have an interest there is no case for prudential regulations applying because there are no depositors to protect. However, such non-banks must obtain their funding from somewhere. If that funding is from bank loans then those loans should be treated like any other bank loans and carry a 100% risk weighting and be subject to rules in respect of large exposures, concentration of risk etc. If the funding is through the securities market then the institution must comply with the requirements of the securities regulator. In practice few such private organisations exist anywhere. Their funders, whoever they might be are likely to require them to match some of banking regulator's requirements, for example in respect to LTV ratio, loan to income ratio and concentration of risk. Where mortgage insurance exists then the insurer will have the same requirements for loans regardless of whether they are made by a bank or a non-bank.

Where a non-bank lender is owned by a bank or a group of banks the activities of the lender should be consolidated with the parent bank so that the same supervisory requirements apply. There may be sound business reasons why a bank may prefer to undertake some or all of its residential mortgage lending through a subsidiary which is not itself a deposit-taker; avoiding regulatory requirements is not a sound business reason. The rules on consolidation must prevent such arbitrage. For example, not requiring consolidation unless the bank's holding is at least 40% of the total equity of the non-bank gives obvious scope for arbitrage.

Supervision of mortgage lending by non-banks is also crucial in respect of state owned mortgage banks. These have been created in many emerging markets, without almost universal adverse effects. The banks exist only because of a state guarantee and generally they have access to funds from the state budget. Such banks invariably lend to the middle classes and are often inefficient in the way that they operate. They compete unfairly with private institutions and thereby hinder the development of a private and sustainable mortgage market.

There is a case for state mortgage banks to help develop a mortgage market where none previously existed, and in any event policy cannot wish away those banks that already exist. The longer term objective must be to abolish or privatise such banks. In the meantime the supervisory regime applying to commercial banks should be applied equally to them. This prevents unfair competition with private banks and is justifiable in its own right through helping to secure more effective and transparent management of the banks. It also helps the banks put themselves into a position that will enable them to operate effectively when cut off from state support if that is feasible.

The point was made earlier that regulators should bear in mind the possibility of securitisation in the future. It is important therefore that legislation does not hinder securitisation. If this is a route that mortgage lenders wish to follow there is generally no need for special legislation governing securitisation. There is no such legislation in Britain but there has been in the last few years signification securitisation of existing mortgage loan portfolios as a means for the banks more effectively to manage their balance sheets and their capital.

Consumer protection

The main effect of seeking to protect consumers is often to deny them the product in the first place. This is true for mortgage lending where, in many countries, measures designed to give protection to the borrower, in particular in relation to possession proceedings, have stifled the market and made the rate of interest much higher than it otherwise would be. It is however important that those borrowing on mortgage have some protection. They are taking on a large loan in relation to their income and if they default on the loan then they risk losing their home.

There are two essential features of mortgage loans that borrowers must understand. The first is that if they do default then they will lose their home. The second is the nature of the interest rate they are being charged. If the rate of interest is fixed then that is clear and straightforward. If the rate of interest is fixed for, say, five years, then borrowers need to understand that that rate may be increased significantly after five years depending on movements in market interest rates. Where interest rates are variable, borrowers have to understand that the rate of interest will change with market rates, perhaps quite significantly. The basis on which the variable rate changes must also be transparent. It might, for example, be a direct link with the cost of funds or it might be a rate determined by the bank after taking account of the cost of funds.

Banking institutions are well known for imposing all sorts of special fees and penalties. In the case of mortgage loans, these can be substantial. Again, it is important that these are clear to borrowers at the beginning of the transaction. If borrowers generally have a bad experience with mortgage lending this will cause a lack of confidence in the market and the system will simply not develop as it should do.

How consumer protection should be implemented is a matter that each country has to decide. Consumer protection is not a function which sits comfortably with the banking regulator. Where there is a specialist consumer protection body then perhaps it might be charged with the consumer protection aspect of mortgage loans. However, there is a very distinct danger here that the consumer protection agency will require measures which make mortgage lending not viable and there will quickly be clashes with the banking regulator. A joined up approach is essential and for this reason it may well be best to give the function to the banking regulator, recognising that this is the least bad rather then the ideal option. This is in fact what is happening in Britain. The current position is that consumer protection in respect of mortgage loans results from a number of specific pieces of legislation and is handled by a number of different government agencies. However, the regulator of the banks, the Financial Services Authority, is in the process of taking over aspects of mortgage lending, including the consumer protection aspects.

The key point is that the consumer protection aspects of mortgage lending must be handled in the context of the mortgage market generally and must be in harmony with the prudential regulation. If consumer protection legislation stipulates what mortgage loans should look like, the information that must be given to the borrower and generally makes it difficult for the lender to take possession, then this could well result in the banking regulator not allowing the 50% risk weighting for mortgage loans which in turn will stifle the development of the market.

What the government should not do

The paper has to a large extent suggested an open market approach to the development of the mortgage lending function, that is it should be seen as part of normal banking activity and regulated as such and there should be no attempt to stipulate which institutions should make mortgage loans or the type of mortgage instrument.

There are many other things that governments do which, at first sight, seem to protect borrowers and encourage the development of the market but which in practice almost invariably have the opposite effect. The general advice that can be given to any government seeking to develop an efficient mortgage finance system is –

- Do not establish a state housing bank. This sounds good but in practice is likely to be a mechanism by which loans are made to better off people with the benefit of state subsidies in an inefficient way.
- Do not subsidise interest rates. People who buy houses are not the poorest people and should not benefit from interest rate subsidies. Similarly, do not allow tax relief on mortgage interest, or at the least restrict it to loans of a modest size. Paradoxically, the perceived need for subsidies to home buyers often stems from public policy measures which cause costs to be high in the first place.

- Do not stipulate mortgage products. In particular, do not prevent banks lending at variable rates of interest.
- Do not see securitisation as the answer, introducing what may be complex legislation designed to promote a concept which is inappropriate to the stage of development of the market.
- Do not attempt to over-protect the borrower such that the lender does not have the security of a mortgage.

What government should do

What then should government do to encourage the development of the mortgage market? In summary –

- Do everything possible to get the right macroeconomic conditions, in particular inflation and interest rates.
- Ensure that there is an efficient system for the registration and transfer of land.
- Ensure that lenders can take possession and sell properties when borrowers default.
- Have a sound system for regulating banks and the bond markets.
- Stimulate the collection of data on the housing market, in particular in respect of property values and arrears experience. The provision of more data will help make the market work more efficiently.
- Provide a limited mortgage insurance system, that is a mechanism that insures lenders against the risk of borrowers defaulting on their loans. This can be a useful pump priming mechanism. However, the experience in some countries, in particular in Canada, is that once set up such systems are impossible to dismantle.
- Ensure that there is a joined up approach by government. The reason why so many countries do not have an effective housing finance system is that many departments and agencies are involved and there is no overall leadership. There is no need for a ministry of mortgage lending but equally a mortgage regulatory agency or mortgage promotion agency, as a stand alone government agency, will achieve little. Someone needs to take ownership of the development of the mortgage system and that someone has to have the necessary clout. In practice, this is likely to mean the finance or economics ministry or the housing ministry. The leadership function is to ensure that all the other mechanisms are in place.